



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 17.10.2001
COM(2001) 611 final

REPORT FROM THE COMMISSION

Overview of EU action in response to the events of the 11 September and assessment of their likely economic impact

I OVERVIEW OF THE EU'S RESPONSE TO THE EVENTS OF 11 SEPTEMBER

Since the tragic events of the 11 September, the European Union has acted with speed and determination both at home and on the international stage. It has shown its solidarity with the Government and the people of the United States and stressed its support for the military action now underway. All thirteen candidate countries were quick in lending their support to the positions expressed by the Union.

The Commission and the Council have been fully engaged in developing a comprehensive set of responses on the diplomatic, economic, financial, political and security fronts. There have been ministerial meetings with the United States and a Summit with Russia. President Prodi and Prime Minister Verhofstadt travelled to Washington following the extraordinary meeting of the European Council on 21 September.

The EU Troika visited Pakistan, Iran, Saudi Arabia, Egypt, and Syria as part of a concerted effort by the Union, alongside the activity of individual Member States, to forge the international coalition against terrorism.

The European Parliament has twice debated the developing situation and has backed up political solidarity by action. It approved the proposed regulation freezing the assets of organisations and individuals suspected of supporting or financing terrorist activities within just two days of its adoption by the Commission.

The full extent of all the actions underway is set out in the roadmap of the EU's response to the events of 11 September agreed by the General Affairs Council. This is a living document which is being constantly updated.

The European Union has risen to these events with great determination and purpose. Working closely together and developing a single, coherent response covering a wide range of activities, the Union has contributed to the shaping of the new international agenda. In responding to the concerns of the citizens in both current and future Member States, this is helping to restore confidence and reduce economic instability.

WHAT IS BEING DONE BY THE EUROPEAN UNION

Stabilising financial markets

- The European Central Bank (ECB) took steps immediately to ensure liquidity of markets in the aftermath of the attack and cut interest rates by 0.5% in parallel with other central banks on 17 September.
- The Council and the European Council actively sought to boost market confidence in their conclusions in the days immediately following the 11 September.

Common approach towards counter-terrorism

- A comprehensive action plan has been agreed by Justice and Home Affairs Ministers, and the Commission has already proposed legislation for a common legislative framework for terrorism (definition, penalties), and for a European arrest warrant to replace national extradition procedures.
- Agreement to strengthen urgently intelligence and police co-operation (Europol and Eurojust) both inside the EU and with third countries, notably with the US.

- The Commission has proposed measures reinforcing the security features of the common visa.
- Consideration is being given to how existing EU legislation, (for example related to asylum or to financial markets), can be made “terrorism proof”.

Financing of terrorism and financial crime.

- An EU-wide freeze on assets of individuals and organisations suspected of financing or supporting the terrorist attacks has been implemented in line with UN Security Council resolutions.
- Work has accelerated on finalising agreement on changes to the Money Laundering Directive. These changes extend the scope of the transactions covered and the range of professions subject to a reporting obligation.
- Work is accelerating on the proposed directive on market abuse, in order to prevent financial markets being misused by terrorist or other criminal groups.
- Peer review exercises involving Member States financial supervisors and the Commission will look at how candidate countries are putting anti-money laundering measures into place. This will be in the framework of the regular examination of how they are implementing financial services rules.
- The Commission will play a leading role in reinforcing the international Financial Action Task Force (FATF), notably to update its mandate and existing recommendations to address the financing of terrorism.
- Reflections are underway concerning how custom controls might be placed on large cash movements across the external frontiers of the Union. This may be needed to overcome gaps in money laundering legislation.

Humanitarian assistance

- Aid amounting to over €310 million (over €100 million from the Commission) has been mobilised by the Union to relieve the suffering of the Afghan people over the coming months.
- As an immediate reaction, the Commission has released €5.5 million in emergency aid. Following the request of the Commission, the European Parliament and the Council authorised the release of an additional €40 million in humanitarian assistance and supported the Commission making a request for an additional €10 million. Further requests may be necessary as the international situation evolves.
- The Commission, through its humanitarian aid office (ECHO) has put co-ordination machinery in place in order to maximise the overall impact of European relief aid.
- An additional €6 million food aid has been released to World Food Programme.

Air safety and security.

- The Commission has proposed a regulation to introduce uniform EU-wide security and safety standards. Further measures on airline and airport security will be put forward in the light of the report of the high level group of experts which was presented to Transport Ministers on 16 October.
- The Commission has also outlined measures which can be taken to assist EU airlines to face the direct consequences of the attacks including the impact on passenger confidence (e.g. higher insurance premiums, narrower cover, lost revenue while US airspace was closed, additional security costs).

- The Commission will accelerate its efforts to develop a trans-Atlantic common aviation area. As a first step pending a negotiating mandate from Council, the Commission will seek to establish a Code of Conduct with the US in order to ensure equal competitive conditions.
- In order to tighten international rules governing airport and airline security, recommendations have been made to the International Civil Aviation Organisation. That organisation will, on the initiative of the EU, now take this issue forward.
- The peer review of airport safety is being put together by the Commission following the request of the European Council. Member States are, however, reluctant to provide inspectors for this task. A senior level group is being set up with the US to co-ordinate air safety measures as well as support measures for the airline industry in order to avoid distortion of competition.

Strengthening the international legal framework

- The European Council on 21 September called for rapid implementation of the existing conventions on terrorism and supported the Indian proposal on a general framework convention against international terrorism. Work is underway to accelerate the conclusion of the existing UN instruments in the EU Member States and in third countries. However, these specific conventions need to be strengthened and completed. The EU is playing an active role in the work on the Indian initiative which started in New York on 15 October.

Civil Protection

- The Commission's Civil Protection unit's 24h/24h alert system was activated on 11 September. The unit mobilised a number of areas for support to be offered to the US, including search and rescue teams, medical assistance, identification teams and psychological assistance.
- Directors General for civil protection of the Member States met on 12 October. They confirmed their intention to increase co-operation between civil protection authorities on major terrorist attacks, within the framework of the Community mechanism for civil protection which should be in place by the 1 January 2002.

Threats from biological and/or chemical agents

- The Commission and the Member States are developing an EU system on surveillance and control of communicable diseases, including an early warning and response system. Community law already provides for control of animal communicable diseases, including those which can be transmitted to humans.

Securing critical infrastructures and supplies

- Work is already underway within the Commission which is looking at the need for increased co-operation at EU level to ensure the security of key supplies and networks. This complements the consultation on last year's Green Paper on the security of energy supplies which will shortly be concluded. In December Council will consider steps to tighten up the security of communications networks following the Commission's Communication last Spring.

The events of 11 September are redefining the foreign policy landscape and presenting the Union with new challenges. The General Affairs Council has already started addressing these issues. Immediate measures have been taken with regard to the crisis situation in Afghanistan and the neighbouring countries as well as at the multilateral level. The Commission has prepared some first elements for a broad reflection on the appropriate medium and long term policy responses in the area of external relations which the Presidency has initiated.

The implications in terms of priorities both for action and for resources at EU level are far-reaching. For example:

- The crisis provides a new impetus for **dialogue with the Arab and Islamic worlds**;
- In the **Middle East Peace Process**, the Union, working closely with the US, must insist that the Mitchell Report is implemented and that a longer term political perspective is offered to the parties by resuming negotiations on both the Palestinian and Syrian tracks;
- The crisis provides a further reason to increase the momentum of **the Barcelona Process** notably in areas such as democratisation, social equity, institution-building and governance, which are all the more important in the present context. This will help to speed up and deepen reforms aimed at improving development performance and advancing democracy;
- The **EU's neighbourhood policy** has sought as a first priority to promote stability through the prospect of membership for the candidate countries. Looking beyond the Union's future borders to the wider Europe, new forms of relationship should be examined that are *neither* a conveyor belt to membership, *nor* the basis for future resentment and tension between privileged insiders, and excluded outsiders. The Barcelona Process, for example, may serve as a demonstration of what is possible.
- More generally, the framework for our trade and co-operation with **Pakistan, India and Iran** as well as with **Saudi Arabia** and the **Gulf States** should be strengthened. With Pakistan, the Union has agreed a comprehensive package of trade measures first proposed in March this year. They are designed to improve access for Pakistani exports to the EU. The Union must continue to review its trade and co-operation with Pakistan. For Iran, negotiations on future trade and co-operation should be now opened on the basis of a mandate which the Commission will present later this year. In the Gulf, the Union should aim to make rapid progress in the EU/Gulf Co-operation Council free trade negotiations, for which a new mandate was recently approved. This should be complemented with a broader political dialogue.
- **Central Asia** will be profoundly affected by developments over the coming months, and the Union will need to follow developments there with close attention, seeking to build its support, especially for regional projects and Justice and Home Affairs co-operation (notably in the fields of drugs and border controls).
- The events have also led to a renewed interest in multilateral action, at the UN and elsewhere. The need for rapid **WTO** progress has been thrown into sharp new relief. These events have proved that co-ordinated, international action can achieve results which would not have been possible for individual States acting on their own.
- It now seems to be recognised that efforts to stamp out international terrorism must be underpinned by policies addressing some of these sources of radical discontent - not that these can ever justify acts of terrorism. These sources touch

the undemocratic behaviour of governments, as well as an unacceptable divide between the rich and the poor; environmental degradation, and crime, corruption, drugs and health issues. For the Union, there is a chance to promote co-operation on **these new cross cutting issues on the international agenda**, such as poverty and migration, environment, crime, drugs, and infectious diseases, as well as the security issues of weapons proliferation and terrorism.

- Equally, the Union's bilateral political **dialogue with third countries**, which has often focused on human rights and democracy, must be complemented with a more substantive exchange on regional development and security, including terrorism and its causes.
- Finally, the Commission believes that recent events have highlighted the need to refine the EU's crisis management procedures, including making fuller use of the **Rapid Reaction Mechanism**. It should operate with the same speed and flexibility as ECHO does in the area of Humanitarian relief.

Against this background, this Working Paper now focuses on the potential economic impact of recent events and presents policy recommendations for future action. It represents a first report on the follow up to 11 September. The Commission will continue to monitor the situation and make recommendations as appropriate.

II IMPACT OF THE EVENTS OF 11 SEPTEMBER ON THE EU ECONOMY AND ON SPECIFIC SECTORS

The global economic situation prior to 11 September

Before the dramatic events of 11 September, all major regions in the world were experiencing a slowdown. At the origin of the slowdown is, first, the hike in oil prices in 1999/2000 fuelling inflation to which central banks reacted by increasing interest rates. Second, there was the bursting of the dot.com bubble and the related dramatic fall in share prices. As a result a compounding factor was the slowdown in international trade, which expanded in real terms by 13% last year, and slowed to less than 2 % this year.

The transmission of these shocks has been very rapid due to the globalisation of financial markets and the internationalisation of firms.

Consequently, despite strong fundamentals, the EU had not escaped the slowdown. In particular, the rise in oil prices, aggravated by the weakness of the euro, and the sudden rise in European food prices, dented real disposable income and private consumption in the EU. GDP growth came almost to a halt in the second quarter of this year.

The impact of the slow-down on employment was already felt in the second half of 2000 in some Member States and to a varying extent in different sectors of the economy. Unemployment stopped falling in Spring 2001 and has since started to rise. It is expected to continue to do so in 2002. Employment growth in 2001 and most of 2002 is expected to be flat or even negative.

The short term impact of 11 September

The events of 11 September and the subsequent political developments further reinforce the uncertainty that was already being felt by markets, businesses and consumers.

The direct damage to US infrastructure from the attack is limited, given the size of its economy. However, the toll in human lives was huge and taken together with the military action now underway creates a feeling of insecurity, not only in the US, but world wide. Risk aversion has increased and confidence has fallen. Most observers incorporate in their forecasts for the US 2-3 quarters of contraction starting in the third quarter of this year.

Japan, already suffering from deflationary and structural problems, is likely to face a longer period of stagnation.

The EU economy is free of major external imbalances and structural reforms have made it more resilient. Nevertheless, growth is now expected to be around 1 ½ % this year and a temporary contraction of GDP cannot be excluded.

The resilience of the EU economy is shown by levels of business and consumer confidence, which though declining sharply, are still above the levels observed during previous recessions.

Impact on specific sectors

Financial markets suffered significant, albeit temporary, disruption, which has resulted in more risk aversion and potentially less liquidity and higher spreads. In reaction to the events, central banks around the world cut interest rates with both the US Federal Reserve and the ECB cutting rates by half a percent, with a subsequent cut in US rates on 1 October to their lowest level since 1962. Nevertheless, there are renewed fears about earnings and lower share prices may have an important impact on consumer spending.

There has also been an impact on the global **insurance and reinsurance sector**. Estimates of total claims range from \$20 to \$80 billion. While the actual claims as a result of the attacks are generally not expected to create major problems for the financial situation of the sector concerned, the impact of falling equity markets is more important. It was already causing some problems before 11 September (equities represent approximately 30% of the investments made by insurance companies).

In **air transport**¹, there has been a 10% reduction in the number of passengers carried in Europe, and 5% cut in fleet capacity since 11 September. This is having a severe impact on European airlines, already facing difficulties even before the attacks in the US. The reduction in passenger numbers and fleet capacity is likely to feed through to other related sectors, though its precise impact will be closely linked to the length of any downturn and to the broader political situation.

¹ Communication on the economic situation in the aviation industry following the attacks in the USA, COM(2001) 574, final, 10.10.01

Both the **tourism industry and tourism destinations** are likely to be affected, but the impact will be varied. Tour operators and travel agents selling holidays in overseas destinations affected by current events, long-haul air tickets or higher standard hotels in capital cities are among the most affected. However, the precise impact of events is difficult to predict, as is the extent to which Europeans will be encouraged to travel in the Union rather than holidaying farther afield in 2002.

III OUTLOOK FOR 2002

The conditions for a recovery in 2002 exist providing the political situation does not deteriorate further

Sound economic fundamentals, largely due to the efforts made in the context of economic and monetary union and the arrival of the euro, mean that the conditions for a recovery in 2002 exist.

The state of Member States' public finances allows some flexibility and the current account of the balance of payments is in equilibrium. In contrast to the United States, private households are less indebted and save more. Over-investment in the information and communication technologies sector (ICT) was less important, limiting European exposure, beyond the specific sectors concerned, to the changing fortunes of the Internet and ICT world. After the downward adjustment, it should be possible for businesses to rebuild their inventories in anticipation of stronger demand ahead.

Furthermore, macro-economic stability has enabled inflation to decline rapidly. From a peak of 3.4 % in May it has dropped to 2.5 % in September in the euro area. Inflation is expected to continue to fall. The increase in unemployment should remain contained in 2002 thanks to the prospects for a recovery.

Against this background spending by individuals and households should pick up, helped by the tax cuts which have been made or announced by many Member States over the last year. As spare capacity in the economy remains limited and given the current low interest rates, investment is likely to resume once demand returns. The annual growth rate in 2002 is therefore likely to be around that achieved in 2001.

The case for cautious optimism is closely linked to the evolution of political events and their impact on business and consumer confidence. Should private consumption in the US fall sharply, the EU outlook would be much bleaker and growth might be even weaker.

However, policy responses should be based on the more likely scenario of a recovery beginning in the second half of next year and an annual growth rate around that achieved in 2001.

IV POLICY RECOMMENDATIONS

In the light of this brief analysis the Commission believes that it is essential for the Union to address the economic and political consequences of the attacks in the United States, principally through action focused on restoring confidence and pursuing vigorously the long-term economic goals for the Union.

IV.1 A balanced policy mix in the EU.

The ECB, like other central banks immediately added liquidity to stabilise market, and reduced its key interests rates by 50 basis points on 17 September to a level of 3.75 %. Monetary conditions in the euro area seem appropriate under the current circumstances. If inflation continues decelerating and wage settlements are moderate – important wage negotiations are scheduled for the beginning of next year -, there is probably further room for manoeuvre for monetary policy.

Fiscal policy is already helping to stabilise the economy. Thanks to the stability and growth pact, past consolidation efforts have created some room for manoeuvre for budgetary policy without jeopardising the medium-term goal of having government balances in equilibrium or in surplus. Maintaining this medium-term goal is a crucial part of the response to the downturn. Otherwise, long-term interest rates may rise.

Several Member States implemented substantial tax cuts in early 2001 amounting to 0.5% GDP for the EU as a whole. An overall fiscal impulse of some 0.3% was given to the EU economy, the first time since 1993.

On top of this, there is the operation of the so-called automatic stabilisers. Slower growth will be reflected in shortfalls in government tax revenues and in additional expenditure (e.g. unemployment benefits). Latest estimates imply a government balance in 2001 of -1 % of GDP in the euro area and -0.5% of GDP in EU-15, some -0.4/0.3% of GDP weaker than the level aimed for in last year's updated stability and convergence programmes.

The budgetary implication of the slow down will also be felt in 2002. To the extent that growth in 2002 falters automatic stabilisers will work again with appropriate differentiation at a country-by-country level.

In the context of budgetary consolidation, investment in human and social capital is important to increase the EU's growth potential. If the slow-down becomes more protracted fiscal policies should allow for increased financing of pro-active policies, in particular those accelerating the achievement of the objectives of the Lisbon Strategy. Such an evolution could only occur within a jointly agreed framework and in a manner which fully respects the stability and growth pact.

IV.2 Structural reforms and the Lisbon strategy:

The Lisbon Strategy emphasises the positive, mutually reinforcing interaction between economic, employment and social policies. With its focus on building a competitive, dynamic and cohesive knowledge-based economy the Strategy remains valid.

Economic and labour market reforms and modernising social policies are already improving the way the Union's economy and labour markets function. The continuation of such reforms is all the more important now that the Union faces economic conditions very different from the ones prevailing when the Lisbon Strategy was launched.

Structural reforms. Too often in times of economic difficulty, these medium-term reforms are wrongly perceived as an additional burden rather than as part of the solution to current conditions. Doubts have been expressed by the business world

about the willingness in the face of the US slowdown and short-term electoral considerations to press ahead with key reforms completing the internal market, including for energy, transport, and financial services, as well as rolling back red tape.

Structural reforms are now needed more than ever. In particular, efficient financial markets underpinned by robust prudential supervision will help the Union becoming a pole of stability. It will reinforce its ability to respond to external shocks. This will allow the Union to reap the full benefits of the euro. A sound and stable regulatory framework is also of paramount importance to cope with risks to stability that may emerge in an enlarged Union.

However, doubts have been compounded by the slow progress on key proposals currently on the table of Council and the European Parliament, and by the mixed quality of implementation of the measures which have already been agreed.

In the present context, the European Union must renew its commitment to its long-term goal and the reforms needed to achieve it. This would support fiscal and monetary policies and increase the room for manoeuvre for them.

To put this into practice, the European Council should recommit itself to achieving the Lisbon Strategy in line with the timetable already agreed. But that commitment must be backed up by rapid progress on certain key measures before the Spring European Council in Barcelona next year.

In order to give a real and credible signal of the Union's willingness to change, the European Council should instruct Council **to accelerate work to achieve final agreement before Barcelona** on the telecoms package, the Community patent, and in financial services, the UCITS directive, rules on the cross-border payments and the market abuse directive.

Furthermore, **political agreement should be achieved before Barcelona** on the Single European Sky package, the pension funds directive, the new framework for trans-European networks, and the proposed public procurement package.

In addition, Member States must boost confidence by **actually applying European rules which they have agreed**, such as those introducing greater competition in local telecoms markets which came into force last January, or the new rules on e-commerce which will apply from January 2002. Applying these rules consistently across all Member States should give a boost to the development of a knowledge-driven economy.

The steps to complete the internal market must go hand in hand with efforts to improve the quality for the public of services of general economic interest – many of which assume greater importance in times of an economic downturn.

The European Investment Bank also has an important contribution to make in supporting the Lisbon Strategy (See IV.4 below).

Employment. The Lisbon Strategy provides the basic orientations which Member States should pursue to reach its employment objectives and to face the employment consequences of the current slowdown. Labour market reforms envisaged in Lisbon

and in the follow up policy recommendations for 2002 need to be pursued vigorously.

In pursuing such reforms, policies should aim to manage change with a balance between flexibility and security. Furthermore, the Commission will launch an additional initiative before the end of the year seeking to improve employability and adaptability of the workforce in the event of mergers and restructuring of businesses.

Tax and benefits system reforms, active employment policies, promoting mobility, and investing in human capital particularly through life long learning, continue to be the policies to apply. A strong emphasis should be placed on implementation of concrete measures which can ensure that policies are delivering the expected results in terms of increased participation and employment rates. Member States should not revert to early retirement schemes to combat rising unemployment.

The Union must also ensure that the Lisbon commitment to combating social exclusion and ensuring access for all to the labour market and to society is fulfilled. The modernisation of social protection and pension systems should continue, notwithstanding the downturn in order to promote social cohesion. This must also take account of the need for financial sustainability.

Finally, increased investment in life long learning, and on health and social services as well as underpinning social inclusion, can also contribute to creating new job opportunities in sectors where employment growth has been particularly slow in some Member States.

If the Member States and the Union follow these policy orientations, in particular as expressed in the employment guidelines for 2002, this will help to stabilise expectations and limit the rise in unemployment and long-term unemployment while preparing the labour force for the next upswing. It will contribute to adjusting labour market policies in the Union.

IV.3 Sectors in specific difficulties.

It is clear that a number of sectors which were already feeling the effects of the economic downturn prior to 11 September have been affected severely by these events. The European Union must be open to flexible ways of assisting these sectors, providing any help given is compatible with the rules of the EC Treaty.

The Commission has indicated in relation to the airline industry that it will look in a favourable light at support given by Member States to compensate losses incurred during the four day closure of US airspace and the subsequent direct impact on passenger confidence; it will also consider the continuation of support to meet insurance costs beyond the 30 days currently allowed or to provide such cover up to the end of the year, if the conditions on the insurance market so justify. Furthermore, the Commission will examine on a case by case basis, the treatment of increased co-operation between airlines with a view to maintaining a regular service on less frequented routes or to co-ordinated schedules during off peak periods.

Nevertheless, recent events must not be used to take action at a national level which undermines the competitiveness of the Union or its industry. In particular, in the case of the airline industry it should not call into question the basis on which the last

round of state aid to the sector was allowed. At the same time, the situation of the European aviation sector in the current climate will be carefully monitored. Any other approach would simply put on hold a necessary process of consolidation in a number of key industries. Such consolidation is important if businesses, employees and consumers are to feel the full benefits of the internal market and of the structural reforms currently underway.

Finally, it will be important in responding to the economic impact of the crisis on specific sectors to monitor action in other parts of the world. A framework for co-ordinating any responses, notably with the US, is essential to ensure that EU businesses are not discriminated against and there is no distortion of international competition. As a first step, such a framework could take the form of a Code of Conduct.

IV.4. Contribution from the EIB

The EIB is the EU's leading provider of long term finance. It channels savings into investment in the key sectors of the economy, including investments in favour of small and medium-sized businesses. The Commission invites the EIB to step up its actions in support of the Union's efforts to sustain economic activity in Europe. This should particularly focus on providing finance for infrastructure projects, to support the knowledge economy and to help stabilise long-term investment in sectors particularly badly affected by the down turn.

The EIB should accelerate the implementation of infrastructure projects and maintain a proactive stance towards lending in sectors particularly hit by adverse conditions, including telecommunications and air transport. It should also speed up the mobilisation of instruments to finance operations involving higher levels of risk, inter alia, to support Europe's drive for a knowledge-drive society. By taking risk alongside the private banking sector, the EIB would contribute to maintaining confidence in the financial sector.

IV.5 Confidence building, including economic co-operation, in the international sphere

Pressing on with enlargement. Enlargement of the European Union is a powerful instrument to create a zone of stability, security and prosperity on the European continent. The efforts of the candidate countries and the Member States to create the enlarged Union must be sustained, both in the negotiations and in the pre-accession efforts. The solidarity of the candidate countries with the Union in the aftermath of the attacks on the US has shown that they stand ready to co-operate in the international efforts in the fight against terrorism.

Launching a new trade round. The successful launch of a new trade round in November will also be an important confidence building measure – not only for business throughout the Union, but for developed and developing countries around the globe. The current economic uncertainty means that trade liberalisation associated with a real development dimension is more important than ever, economically and politically.

The European Union must re-confirm its commitment to the rapid launch of a new round and take an even more proactive position centred on multilateralism, while

also seeking to reinvigorate regional arrangements, particularly the Barcelona Process with our Mediterranean neighbours.

Development and poverty reduction. Any political or military response to the events of 11 September must go hand in hand with action to address the economic and social impact which they will have. A coalition against terrorism must be complemented by a coalition for development. This linkage is already a component of EU policies for peace building and conflict prevention. Development co-operation is helping to reduce ethnic, social and regional tensions.

While the impact of recent events is significant within the Union, the impact beyond the Union, and particularly in the developing world may be much more marked. Slower world growth, reduced international private investment flows and the risk of resources being diverted from development assistance to other priorities are substantial causes of concern.

This combination of events highlights the need for the European Union to provide a response which can help these countries and ensure that globalisation contributes to growth and social justice around the world. The Union must:

- Examine the priorities and funding levels in EU external action.
- Fulfil promises and boost their implementation in order to meet the seven main International Development Targets agreed by Heads of State for 2015.
- Address at the upcoming UN Conference on Financing for Development (March 2002) the question of official developing assistance (ODA).
- Tackle the need for developing countries to achieve sustainable development in view of the Rio +10 Conference in Johannesburg, September 2002.

International judicial and police co-operation. Recent events have added a new “security” dimension to the European Union’s international perspective. The Union should take the lead. It must, looking beyond the immediate horizon, try to develop instruments which will extend effective co-operation between police and judicial authorities to the international level. Such a development will help in the fight against terrorism both inside the Union and in the rest of the world. It will also help to integrate all countries into a global system offering security, prosperity and improved prospects for investment and development.

An enlarged European Conference, bringing together the Union, the associated countries, the EFTA countries and the countries involved in the stabilisation and association process, will meet immediately following the Gent European Council at Foreign Minister level. It will address some of these issues of security and judicial co-operation in the context of the fight against terrorism. In addition, Russia, Ukraine and Moldova have been invited to the subsequent working lunch addressing the same issues.

Humanitarian Assistance. With respect to the Afghan situation, the European Union has mobilised over €310m (over €100m from the Commission) in response to the humanitarian crisis affecting the Afghan civilian population. These pledges together with those made by US and other States will ensure adequate funding for the coming months for humanitarian operations planned by the UN, the Red Cross/Crescent

movement and Non Governmental Organisations, (even in a worst-case scenario of up to 1,5 million refugees fleeing Afghanistan). The European Union must quickly transform its pledges into confirmed contributions in order to support humanitarian efforts in a timely manner.

The European Union's humanitarian assistance must remain guided only by the fundamental humanitarian principles of neutrality, transparency and impartiality. This is essential for the access and safety of both relief workers and the assisted populations.

Depending on the evolution of the situation not only in Afghanistan, but also in the whole region, the European Union should be ready to contribute further funding, notably by allowing the Commission to draw extra-funding from the Community Budget's emergency reserve.

Finally the European Union must watch out for the potential humanitarian fallout of the attacks in the US in other "sensitive" parts of the world. This is especially true in those countries where there is already a difficult political and humanitarian situation or civil violence. Such conditions are ones in which terrorist activity can thrive and contribute to further destabilisation. Should such situations occur, the Union would need to apply the same determination and energy including on the humanitarian front, as is currently applied to the Afghan crisis.

V CONCLUSIONS

The European Union has responded effectively and rapidly to the consequences of the events of 11 September. The challenge now will be to maintain the momentum behind the Union's action and to develop a strategy to meet the medium and long-term political and economic challenges ahead.

Current economic conditions, and in particular, the unprecedented level of uncertainty are serious, It is therefore important that certain key messages guide the European Union's response:

- While the Union faces a serious situation, sound economic fundamentals mean that it is in a good position to face the current crisis. Subject to there being no further deterioration in the political climate, there are causes for cautious optimism that a recovery may start to be seen in the second half of 2002. It is important to maintain those sound fundamentals by following the right policy mix.
- The European Union must reinforce its focus on its medium and long-term objectives set out in the Lisbon strategy. This should be backed up by decisions on key proposals currently before Council and European Parliament before the next Spring European Council.
- The impact of current events on individual sectors must be kept under review. However, measures (particularly generalised aid packages) which harm the long-term prospects for growth and competitiveness must be avoided. Particular attention must be paid to managing the social and employment impact of the deteriorating economic situation.

- The European Investment Bank should step up its contribution by providing lending, particularly to infrastructure projects, to support the knowledge economy and to help stabilise long-term investment, including in sectors particularly badly affected by the down turn.
- Building global confidence is also important. The successful launch of a new trade round must be a key component of building that confidence. At the same time the Union must make best use of its co-operation and development policies, in particular with those partner countries around the world, which are more vulnerable to the present conditions. A coalition against terrorism must be complemented by a coalition for development with the Union playing a leading role in setting this in motion.
- The range of actions designed to improve co-operation in the fight against terrorism, and to enhance security and protection of European citizens (such as those identified in Roadmaps of the General Affairs and Justice and Home Affairs Councils), must be vigorously pursued. Consideration must also be given to additional measures updating and adapting EU rules currently in place or proposed before the events in the US, such as the new rules on money laundering, or provisions relating to asylum.
- The Union's capacity to respond to incidents involving biological or chemical agents which threaten human health should be rapidly strengthened, building on the experience of the much stronger system already in place relating to threats to animal health.
- A far reaching reflection on medium and longer-term political and foreign policy responses of the Union must be set in train with the aim of strengthening global governance world-wide in order to ensure sustainable and equitable development, as well as promoting dialogue between civilisations.

The Commission will continue to monitor and report on the evolution of the current situation and to make recommendations in the light of its assessment. Its annual economic report and Autumn forecasts due later this year should offer a further opportunity to assess economic developments as more solid data on the reaction of markets, businesses and people to the aftermath of the 11 September becomes available.